

ANNUAL REPORT 1968  
RAPPORT ANNUEL 1968

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## CORPORATE DATA

### Head Office:

5115 Trans Island Avenue  
Montreal 248, Quebec

### Transfer Agent:

National Trust Company Ltd.  
Montreal and Toronto

### Registrar:

The Royal Trust Company  
Montreal and Toronto

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### ABOUT THE COVER

During 1968 the Company adopted a modern treatment of the lettering in its name, which is reproduced on the cover and is shown above as it would appear on a store exterior.

## Directors

**PETER KILBURN, Chairman**  
*President: Greenshields Incorporated  
Montreal, Quebec*

**JAMES G. KENDRICK**  
*President: Zeller's Limited  
Montreal, Quebec*

**JAMES G. BALFOUR**  
*Senior Vice-President: Zeller's Limited  
Montreal, Quebec*

**E. LEONARD BOULTBEE**  
*President: Boulbee, Sweet & Co. Ltd.  
Vancouver, B.C.*

**RALPH B. BRENNAN**  
*President: G. E. Barbour  
Company Limited  
Saint John, N.B.*

**DONALD N. BYERS, Q.C.**  
*Partner: Byers, McDougall, Casgrain & Stewart  
Montreal, Quebec*

**ROLAND CHAGNON**  
*President: Lallemand Inc.  
Montreal, Quebec*

**JOHN G. CURTIN**  
*Vice-President: W. T. Grant Company  
New York, N.Y.*

**LOUIS C. LUSTENBERGER**  
*Chairman, Executive Committee of the Board,  
W. T. Grant Co., New York, N.Y.*

**RICHARD W. MARVELL**  
*Senior Vice-President: Zeller's Limited  
Montreal, Quebec*

**R. JAMES PINCHIN**  
*President: Renown Investments Ltd.  
Midland, Ontario*

**EDWARD STALEY**  
*Chairman: W. T. Grant Company  
New York, N.Y.*

**EDGAR F. TOLHURST**  
*Chairman: Tolhurst Oil Ltd.  
Montreal, Quebec*

## Officers

**PETER KILBURN, Chairman of the Board**

**JAMES G. KENDRICK, President**

**JAMES G. BALFOUR, Senior Vice-President,  
Merchandise**

**RICHARD W. MARVELL, Senior Vice-President,  
Store Expansion**

**WILLIAM H. BUGGS, Vice-President,  
Store Operations**

**THOMAS H. BURDON, Vice-President,  
Personnel**

**A. VICTOR ROWLAND, Vice-President,  
Finance and Treasurer**

**EDMUND G. COLLARD, Q.C., Secretary and  
General Counsel**

**COLIN C. ROSS, Comptroller**

## RESULTS IN BRIEF

	1968	1967	Change
SALES	\$142,873,390	\$132,740,101	\$10,133,289
Earnings before Income Taxes	13,433,018	12,899,334	533,684
Income Taxes	7,030,000	6,775,000	255,000
Per Common Share	.56	.54*	.02
Net Earnings	6,403,018	6,124,334	278,684
Per Common Share	.50	.48*	.02
Total Dividends Paid	2,921,656	2,348,265	573,391
Preferred	159,159	172,077	(12,918)
Per Share	2.25	2.25	—
Common	2,762,497	2,176,188	586,309
Per Share	.22	.17½*	.04½
Employees' Compensation and Benefits	25,511,423	22,706,477	2,804,946
Percent of Sales Dollar	17.86%	17.11%	.75%
Earnings Retained in the Business	3,481,362	3,776,069	(294,707)
Depreciation Charge	1,632,571	1,482,405	150,166
Merchandise Inventories	22,127,536	18,761,699	3,365,837
Accounts Receivable (Net)	28,373,629	24,634,995	3,738,634
Working Capital	35,980,686	33,628,179	2,352,507
Common Shareholders' Equity	34,337,462	30,151,715	4,185,747
Per Common Share	2.73	2.41*	.32
Number of Preferred Shareholders	290	323	(33)
Number of Common Shareholders	3,382	1,746	1,636
Number of Stores at Year-end	119	112	7

\*Adjusted to reflect the four for one subdivision of shares on May 10, 1968.

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## THE PRESIDENT'S REPORT

### To The Shareholders:

The fiscal year-ended January 31, 1969 was one in which several significant records were attained. Sales volume reached a new high for the twenty-fifth successive year; net earnings were above last year's high; the Company continued its record of earning a profit and of paying dividends in every year since 1935; and the Company completed its largest year of store expansion.

#### SALES

The year's sales totalled \$142,873,390 and were the highest in the Company's history. The increase over 1967 sales was \$10,133,289 or 7.6%. Included in the 1968 sales are credit sales of \$28,665,916, which were 20.1% of the Company's total sales compared with 19.3% for the year before.

At the end of the fiscal year 1968 there were twenty-two of the suburban department stores in operation. This group of large new stores did 34.4% of the Company's total sales during the year ending January 31, 1969, which compares with 27.2% for the previous year. The total number of stores in operation across Canada at January 31, 1969 was 119.

#### EARNINGS

The net earnings for the year totalled \$6,403,018 which after the dividends were paid on the preferred shares, equalled 50¢ per common share on the 12,579,430 shares outstanding at the year end. In 1967 net earnings were \$6,124,334, or 48¢ per common share on the 12,490,000 shares outstanding at that year end. All the per common share figures in this report have been adjusted to reflect the 4-for-1 subdivision of shares on May 10, 1968.

For the fiscal year of 1968 net earnings were 4.48% of sales compared with 4.61% last year.

#### DIVIDENDS

During 1968 the Company paid dividends of \$2.25 per share on its preferred shares and 22¢ per share on its common shares. The total dividends paid in 1968 to holders of the Company's common shares reached a record of \$2,762,497, which represented 44.2% of the net earnings for the year after the

## RAPPORT DU PRÉSIDENT

### Aux actionnaires:

L'exercice terminé le 31 janvier 1969 a été marqué de plusieurs records dignes de mention. Pour la vingt-cinquième année consécutive, le chiffre d'affaires a atteint un nouveau sommet, et les bénéfices nets ont dépassé le chiffre record de l'an dernier. La compagnie est restée fidèle à une tradition qui remonte à 1935, en réalisant un bénéfice et en versant des dividendes chaque année. En outre, la compagnie a mené à bien le plus considérable programme d'expansion de ses magasins.

#### VENTES

Le total des ventes de l'exercice a atteint \$142,873,390, soit le montant le plus élevé de toute l'histoire de la compagnie. L'augmentation par rapport à 1967 a été de \$10,133,289 ou 7.6%. Sont comprises dans ce total, des ventes à crédit s'élevant à \$28,665,916 et constituant 20.1% du total, comparativement à 19.3% pour l'exercice précédent.

A la fin de l'exercice 1968, vingt-deux de nos magasins de banlieue étaient ouverts. Ce groupe de nouveaux établissements a réalisé pendant l'année 34.4% des ventes totales de la compagnie, comparativement à 27.2% pour l'année précédente. Au total, nous avions, au 31 janvier 1969, 119 magasins ouverts, dans tout le Canada.

#### BÉNÉFICES

Les bénéfices nets de l'exercice ont atteint le total de \$6,403,018, ce qui représente, après paiement des dividendes sur les actions privilégiées, un bénéfice de 50¢ pour chacune des 12,579,430 actions ordinaires en circulation à la fin de l'exercice. En 1967, les bénéfices nets s'étaient élevés à \$6,124,334, soit 48¢ par action ordinaire; 12,490,000 actions ordinaires étaient en circulation à la fin de cet exercice. Tous les chiffres par action mentionnés dans ce rapport ont été ajustés de façon à tenir compte du fractionnement des actions à quatre pour une qui a eu lieu le 10 mai 1968.

payment of the preferred dividends. In 1967 common share dividends totalled \$2,176,188 or 36.6% of net earnings after the payment of the preferred dividends.

## FINANCIAL POSITION

At the year-end, working capital totalled \$35,980,686 for an increase of \$2,352,507 over the prior year. The ratio of current assets to current liabilities was 3.0 to one.

Merchandise inventories in the stores, distribution centre, and in transit totalled \$22,127,536 at cost value which is 17.9% above the amount invested in merchandise at the end of the prior year. The increase is located primarily in the new and enlarged stores of the 1968 capital programme and in the substantially larger distribution centre that was opened during the year.

At the end of 1968 installment accounts receivable from customers were \$29,970,749, an increase of \$3,908,461 over the amount outstanding at the end of the year before. Allowances for doubtful accounts and unearned service charges are reported as a footnote to the Balance Sheet, and are maintained on an adequate and consistent basis.

## EXPANSION PROGRAMME

The capital programme of 1968 was the largest in the Company's history, measured both by the sell-

Pour l'exercice 1968, le bénéfice net en pourcentage des ventes a été de 4.48% comparativement à 4.61% pour l'exercice précédent.

## DIVIDENDES

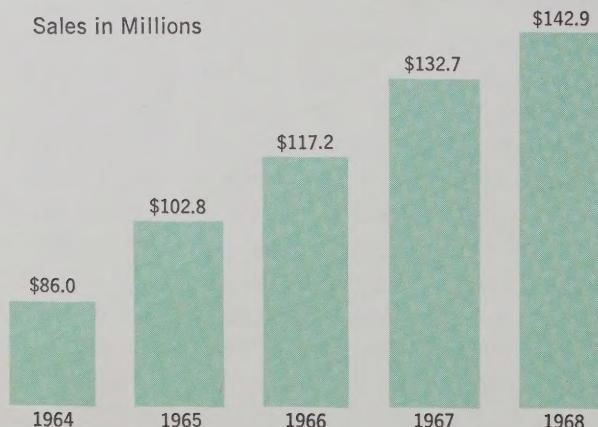
Les dividendes versés par la compagnie en 1968 ont été de \$2.25 par action privilégiée et de 22¢ par action ordinaire. Le total versé aux détenteurs d'actions ordinaires s'est élevé au chiffre record de \$2,762,497, soit 44.2% des bénéfices nets de l'exercice après versement des dividendes sur les actions privilégiées. En 1967, les chiffres correspondants avaient été de \$2,176,188 ou 36.6% des bénéfices nets après versement des dividendes sur les actions privilégiées.

## SITUATION FINANCIÈRE

A la fin de l'exercice, le fonds de roulement s'élevait à \$35,980,686, soit une augmentation de \$2,352,507 comparativement à l'exercice précédent. Le rapport des disponibilités aux exigibilités était de 3.0 à un.

Les stocks des magasins, du centre de distribution ou en cours de transport s'élevaient à \$22,127,536 au prix coûtant, ce qui représente 17.9% de plus que le montant correspondant à la fin de l'exercice précédent. Cette augmentation est attribuable principalement à nos nouveaux magasins et à ceux qui ont été agrandis en vertu de notre programme d'immobilisations de 1968, ainsi qu'à notre centre de distribution qui a été sensiblement agrandi, et est entré en service durant l'année.

A la fin de 1968, les comptes-clients à recevoir par versements échelonnés s'élevaient à \$29,970,749, une augmentation de \$3,908,461 sur les montants dûs à la fin de l'exercice précédent. La réserve pour créances douteuses et frais de service non échus figure dans une note annexée au bilan; elle a été maintenue à un niveau approprié et constant.



ing space added in new and enlarged stores and by the total of capital expenditures for store fixtures. There were 535,700 square feet added to the Company's gross floor area in its stores during the year, at a total capital expenditure for fixtures and equipment of \$3,028,000. Capital expenditures for the prior year amounted to \$1,609,000. The pre-opening expenses incurred for this record year of expansion were absorbed as part of the current year's operation, as is the Company's practice.

Seven suburban department stores with an average size of 73,000 square feet were opened during 1968 at Chicoutimi, Quebec, Cobourg and Cornwall, Ontario, Yorkton, Saskatchewan, Lethbridge and Calgary, Alberta, and at Richmond, British Columbia. A new, larger store was also opened in downtown Fredericton, New Brunswick, and the successful existing store in the shopping centre at Brockville, Ontario was enlarged by more than fifty percent.

The new distribution centre with 136,500 square feet in gross floor area and located in Montreal North was opened during the fall of 1968.

The expansion programme for 1969 is expected to add seven large suburban stores to the chain. The gross floor area of the new stores will range between 59,600 and 100,000 square feet, for an average size of 83,800 square feet. The two units that will be opened during the first six months of

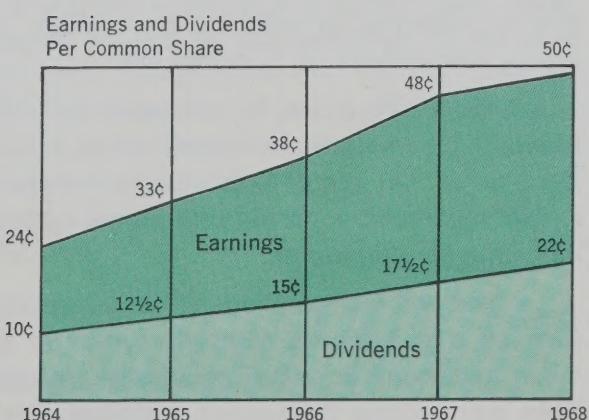
## PROJETS D'EXPANSION

Le programme d'immobilisations de 1968 a été le plus considérable que la compagnie ait jamais entrepris, pour ce qui est de la superficie commerciale ajoutée sous forme d'agrandissements ou de nouveaux magasins, et des déboursés totaux qui y ont été affectés pour l'aménagement des magasins. Au cours de l'exercice, la surface globale, sous toit, des magasins de la compagnie, s'est accrue de 535,700 pieds carrés. Quant aux immobilisations sous forme d'appareils et de matériel, elles se sont élevées à \$3,028,000. Pour l'exercice précédent, les déboursés correspondants avaient été de \$1,609,000. Les dépenses encourues concernant l'inauguration des magasins, pour cette année d'expansion sans précédent, furent absorbées comme faisant partie de l'exploitation de l'année en cours, suivant la règle de la compagnie.

En 1968, sept grands magasins de banlieue, d'une superficie moyenne de 73,000 pieds carrés, ont ouvert leurs portes à Chicoutimi (Québec), Cobourg et Cornwall (Ontario), Yorktown (Saskatchewan), Lethbridge et Calgary (Alberta) et Richmond (Colombie-Britannique). Nous avons également ouvert un nouveau magasin plus grand au centre de Fredericton (Nouveau-Brunswick) et agrandi de plus de moitié notre excellent magasin du centre d'achat de Brockville (Ontario).

Notre nouveau centre de distribution de Montréal-Nord, d'une superficie globale de 136,500 pieds carrés, a été ouvert durant l'automne 1968.

D'après notre programme d'expansion, notre réseau de magasins s'enrichira en 1969 de sept nouveaux grands magasins de banlieue. Leur superficie globale, sous toit, variera de 59,600 à 100,000 pieds carrés, la moyenne étant de 83,800 pieds carrés. Les deux premiers, qui s'ouvriront pendant le premier semestre de 1969, sont situés à Hamilton (Ontario), et à Repentigny (Québec). Les autres s'ouvriront au cours du troisième trimestre de l'exercice 1969.



1969 are located in Hamilton, Ontario and Repentigny, Quebec. The remaining new stores in the 1969 programme will open during the third quarter of the Company's fiscal year.

Two successful existing stores will be enlarged or modernized during 1969. It is also planned to close an older, small downtown unit during the first half of the new year.

The 1969 capital expenditures primarily for the new stores are estimated at about \$3,000,000.

## PERSONNEL AND ORGANIZATION

Management changes during 1968 involving two of the Officers of the Company included the acceptance with regret by the Board of Directors of the resignation of Mr. Stockwell Day, Vice-President, Store Operations in order that he might pursue a career in other fields. Mr. William H. Buggs, Vice-President, Sales who has been associated with Zeller's for over twenty-three years, was appointed Vice-President, Store Operations. He brings to his new position a broad experience in sales, merchandizing, and operations. Mr. Hans E. Busse, Division Sales & Operations Manager, was appointed Director of Sales. Mr. Busse, joined the Company in 1952 as a Management Trainee and has moved progressively into positions of increasing responsibility first as a Store Manager, then as

Deux de nos magasins prospères actuels seront également modernisés et agrandis en 1969. Nous comptons d'autre part fermer un petit magasin plus ancien du centre-ville au cours du premier semestre de l'exercice.

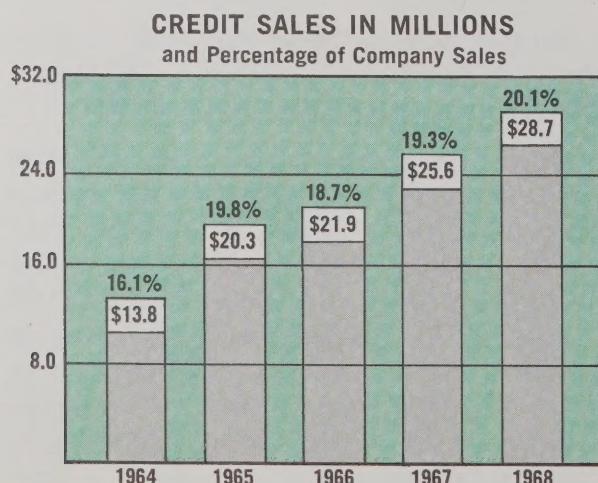
Les dépenses en immobilisations prévues pour 1969 — principalement sous forme de magasins nouveaux — s'élèveront à \$3,000,000 environ.

## PERSONNEL ET ADMINISTRATION

Deux changements administratifs ont eu lieu parmi les cadres dirigeants de la compagnie. C'est à regret que le conseil d'administration a accepté la démission de M. Stockwell Day, vice-président chargé de l'exploitation des magasins, dont la carrière a pris une orientation différente. Pour le remplacer, M. William H. Buggs, vice-président chargé des ventes, chez Zeller's depuis plus de 23 ans, a été nommé vice-président chargé de l'exploitation des magasins. Il apportera dans ses nouvelles fonctions une vaste expérience de la vente, des techniques marchandes et de l'exploitation. M. Hans E. Busse, directeur divisionnaire des ventes et de l'exploitation, a été nommé directeur des ventes. M. Busse s'est joint à la compagnie en 1952 comme stagiaire en administration, pour accéder ensuite à des fonctions plus importantes d'abord comme gérant de magasin, puis comme inspecteur et enfin comme membre du groupe administratif de la compagnie.

A la fin de l'exercice, la compagnie comptait environ 7,600 employés, comparativement à 6,700 il y a un an. Cet effectif augmente normalement à 10,000 en décembre, qui est toujours une période de pointe pour les ventes.

Le total des rémunérations et des allocations diverses, c'est-à-dire les montants versés en salaires, traitements et primes, ainsi qu'en contributions aux régimes d'assurance conjointe et de



a Field Supervisor, and now as a member of the Company's Management Group.

At the year end the Company had approximately 7,600 employees compared to 6,700 one year ago. This number normally increases to approximately 10,000 during the peak selling month of December.

Employees' compensation and benefits which include salaries, wages and bonuses, as well as contributions to the pension and group insurance plans totalled \$25,511,423, or 17.9% of sales in 1968. This compares with \$22,706,477, or 17.1% of sales in 1967. During 1968 the Company's growth programme continued to offer excellent opportunities to its people, making it possible to promote 24 Assistant Managers to Store Managers and 43 Store Managers to larger stores and other executive positions. At the year end there were 266 men in training for store management and other Field and Head Office executive positions.

### CONCLUSION

The Company is most grateful to its employees and to its customers and suppliers for their contribution in making 1968 a record year. We also extend a welcome to the many new shareholders of the Company, while expressing our continuing appreciation for the loyalty of our other shareholders.

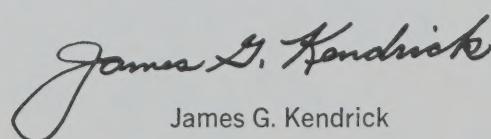
The new year begins with some uncertainties in economic and political conditions, including historical highs for interest rates and a continual push upwards on the costs of doing business. In spite of these early indications, we approach the new year with confidence in the Company's strong over-all position to take advantage of the sales and profit opportunities that the new year will offer to it.

retraite, s'est élevé en 1968 à \$25,511,423, soit 17.9% des ventes. Les chiffres comparables pour 1967 étaient de \$22,706,477, ou 17.1% des ventes. Au cours de 1968, le programme d'expansion de la compagnie a continué d'offrir d'excellentes chances d'avancement au personnel, ce qui a permis la nomination de 24 gérants adjoints à des postes de gérance, et celle de 43 gérants de magasin à des gérances plus importantes ou à des fonctions administratives. A la fin de l'exercice, on comptait 266 stagiaires à des postes de gérants de magasin et à d'autres postes de direction au siège social et à l'extérieur.

### CONCLUSION

La compagnie exprime sa sincère gratitude à tout son personnel, à ses clients et à ses fournisseurs pour la part qu'ils ont prise au succès de l'exercice écoulé. Nous saluons également les nombreux actionnaires nouveaux de la compagnie et exprimons aux anciens nos remerciements pour leur encouragement constant.

Le nouvel exercice débute avec quelques incertitudes économiques et politiques, marquées d'un loyer de l'argent qui atteint des sommets sans précédents et d'une hausse continue des frais pour exploiter le commerce. Malgré ces premiers indices, nous abordons la nouvelle année avec une pleine confiance dans la situation globale de la compagnie, qui devrait lui permettre de profiter de toutes les occasions que cette année lui offrira.



James G. Kendrick

Montreal, Quebec,  
March 20, 1969.

Montréal (Québec),  
le 20 mars 1969,

**ZELLER'S LIMITED  
CONSOLIDATED**

**ASSETS**

**CURRENT ASSETS:**

	<u>1969</u>	<u>1968</u>
Cash .....	\$ 2,483,698	\$ 2,339,512
Accounts receivable (Note 1) .....	28,373,629	24,634,995
Inventories — at the lower of cost or net realizable value .....	22,127,536	18,761,699
Prepaid expenses and supplies .....	681,529	349,021
Total current assets .....	<u>53,666,392</u>	<u>46,085,227</u>
SPECIAL REFUNDABLE TAX .....	—	302,566
PREFERRED STOCK PURCHASE FUND — cash on deposit .....	100,000	100,000

**FIXED ASSETS — at cost:**

Buildings .....	1,369,375	1,409,522
Fixtures and equipment .....	19,298,737	16,357,414
Improvements to leasehold premises .....	8,442,920	8,386,757
Less accumulated depreciation and amortization .....	<u>29,111,032</u>	<u>26,153,693</u>
Net fixed assets .....	<u>16,081,076</u>	<u>14,482,693</u>
Land .....	13,029,956	11,671,000
Net fixed assets .....	<u>616,770</u>	<u>645,270</u>
	<u>13,646,726</u>	<u>12,316,270</u>

Approved by the Board:

PETER KILBURN, Director.

JAMES G. KENDRICK, Director.

TOTAL .....

\$67,413,118

\$58,804,063

and subsidiary companies



## BALANCE SHEET

as at January 31, 1969 (with 1968 figures for comparison)

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### CURRENT LIABILITIES:

	<u>1969</u>	<u>1968</u>
Notes payable	\$ 6,300,000	\$ 1,000,000
Accounts payable, trade	6,129,049	4,215,199
Accrued and other liabilities	3,518,217	3,424,206
Income and other taxes (Note 5)	1,738,440	3,817,643
Total current liabilities	<u>17,685,706</u>	<u>12,457,048</u>

#### SINKING FUND DEBENTURES (Note 2):

Series A, 6% maturing November 1, 1977	1,577,000	1,723,000
Series B, 5½% maturing June 1, 1982	4,679,000	4,800,000
Series C, 7% maturing November 15, 1986	5,749,000	5,900,000
	<u>12,005,000</u>	<u>12,423,000</u>
DEFERRED INCOME TAXES (Note 5)	160,000	—

#### SHAREHOLDERS' EQUITY:

##### Capital stock (Note 3):

Authorized: 100,000 4½% cumulative redeemable preferred shares of a par value of \$50 each

13,600,000 common shares of no par value

Issued and fully paid:

64,499 preferred shares

12,579,430 common shares

Preferred stock purchase reserve (Note 4)

Earned surplus (Note 2)

Total shareholders' equity

**TOTAL**

3,224,950	3,772,300
4,863,660	4,376,095
8,088,610	8,148,395
1,775,050	1,227,700
27,698,752	24,547,920
37,562,412	33,924,015
<b>\$67,413,118</b>	<b>\$58,804,063</b>

*The accompanying notes are an integral part of the financial statements.*

**CONSOLIDATED STATEMENT OF  
EARNINGS AND EARNED SURPLUS**  
for the year ended January 31, 1969  
(with 1968 figures for comparison)

	<b>1969</b>	<b>1968</b>
SALES .....	\$142,873,390	\$132,740,101
DEDUCT:		
Cost of goods sold, operating, selling and administrative expenses, exclusive of items shown hereunder .....	\$126,754,028	\$117,345,290
Remuneration received by directors, including officers who are directors .....	295,033	286,400
Depreciation and amortization — buildings, equipment and improvements .....	1,632,571	1,482,405
Debenture interest .....	768,712	796,043
	<b>129,450,344</b>	<b>119,910,138</b>
	<b>13,423,046</b>	<b>12,829,963</b>
INCOME FROM INVESTMENTS .....	9,972	69,371
PROVISION FOR INCOME TAXES (Note 5) .....	13,433,018	12,899,334
NET EARNINGS FOR THE YEAR .....	7,030,000	6,775,000
	<b>6,403,018</b>	<b>6,124,334</b>
ADD:		
Earned surplus at beginning of the year .....	24,547,920	20,826,966
Net profit on disposal of fixed assets .....	80,286	2,115
Proceeds of stock dividend .....	—	4,698
Discount on debentures and preferred shares redeemed .....	136,534	44,672
	<b>24,764,740</b>	<b>20,878,451</b>
	<b>31,167,758</b>	<b>27,002,785</b>
DEDUCT:		
Dividends:		
Preferred shares .....	159,159	172,077
Common shares .....	2,762,497	2,176,188
	<b>2,921,656</b>	<b>2,348,265</b>
Appropriation to preferred stock purchase reserve .....	547,350	106,600
EARNED SURPLUS AT END OF THE YEAR .....	<b>\$ 27,698,752</b>	<b>\$ 24,547,920</b>

*The accompanying notes are an integral part of the financial statements.*



**Notes to the Consolidated Financial Statements**  
**January 31, 1969**

	1969	1968
<b>1. Accounts Receivable:</b>		
Instalment and 30-day accounts .....	\$29,970,749	\$26,062,288
Other .....	789,740	730,825
	<hr/> 30,760,489	<hr/> 26,793,113
<b>Less:</b>		
Allowance for doubtful accounts ....	1,048,506	911,820
Allowance for unearned service charges .....	1,338,354	1,246,298
	<hr/> 2,386,860	<hr/> 2,158,118
	<hr/> \$28,373,629	<hr/> \$24,634,995

2. Debentures are redeemable in whole or in part at the option of the company at any time prior to maturity. During the next five years sinking fund payments required by the trust deeds are \$245,000 for the year ending January 31, 1970 and \$520,000 per annum for the succeeding four years.

The company has covenanted that while any of the debentures remain outstanding it will not pay any dividends other than stock dividends on any common shares of its capital stock which would have the result or effect of reducing the consolidated earned surplus of the company and its subsidiaries to an amount less than \$13,000,000.

3. Preferred shares may be redeemed at 101% of par value.

Under the terms of the Employees' Stock Purchase Plan (1961), the company was authorized to grant to employees options to purchase up to 800,000 common shares of the company at prices not less than 90% of the average market price of the shares during the month prior to that in which options were exercised. Options must be exercised not later than two years from date of grant and payment must be made in full within 10 years from the date that any option is exercised.

As at January 31, 1969 options had been granted on 799,380 shares of which 579,430 shares had been paid for in full and issued, 206,650 shares are in process of payment (including 32,240 shares for employees who are officers or directors) and 13,300 shares are covered by outstanding options which expire in May, 1969 and May, 1970.

During the year ended January 31, 1969:—  
 10,947 preferred shares were purchased for cancellation;

**Notes aux états financiers consolidés**  
**le 31 janvier 1969**

	1969	1968
<b>1. Comptes à recevoir:</b>		
Comptes à tempérament et à 30 jours .....	\$29,970,749	\$26,062,288
Autres .....	789,740	730,825
	<hr/> 30,760,489	<hr/> 26,793,113
<b>Moins:</b>		
Provision pour créances douteuses .....	1,048,506	911,820
Provision pour frais d'admi- nistration non gagnés .....	1,338,354	1,246,298
	<hr/> 2,386,860	<hr/> 2,158,118
	<hr/> \$28,373,629	<hr/> \$24,634,995

2. Les débentures sont remboursables entièrement ou en partie, en tout temps avant l'échéance, au choix de la compagnie. Au cours des cinq prochaines années les paiements au fond d'amortissement, tel que requis par l'acte fiduciaire, sont de \$245,000 pour l'année terminée le 31 janvier 1970 et de \$520,000 annuellement pour les quatre années qui suivent.

La compagnie a stipulé par contrat, qu'en autant que les débentures demeureront en circulation, elle ne paiera pas de dividendes, autre que des dividendes en action, sur toutes actions ordinaires de son capital-actions qui aurait pour résultat ou effet de réduire le surplus gagné consolidé de la compagnie et filiales à un montant moindre que \$13,000,000.

3. Les actions privilégiées peuvent être rachetées à 101% de la valeur au pair.

Selon les termes du plan d'achat d'actions (1961) des employés, la compagnie était autorisée à accorder aux employés des options pour l'achat d'actions jusqu'à concurrence de 800,000 actions ordinaires de la compagnie, à des coûts non moindre que 90% du coût moyen du marché des actions durant le mois précédent celui dans lequel les options ont été exercées. Les options doivent être exercées au plus tard dans les deux ans suivant leurs dates d'émission et le paiement complet doit être fait dans les dix ans suivant la date que toute option est exercée.

Au 31 janvier 1969 des options avaient été accordées sur 799,380 actions dont 579,430 actions avaient été payées au complet et émises, 206,650 actions sont en frais d'être payées (y compris 32,240 actions pour employés qui sont officiers ou administrateurs) et 13,300 actions sont couvertes par des options en circulation qui expirent au mois de mai 1969 et mai 1970.

Au cours de l'année terminée le 31 janvier 1969:—  
 10,947 actions privilégiées ont été achetées pour être annulées;

89,430 common shares were issued under the Employees' Stock Purchase Plan for a cash consideration of \$487,565;  
Common shares were subdivided on the basis of four new shares for each existing share.

4. The preferred stock purchase reserve was increased during the year ended January 31, 1969 by \$547,350 appropriated from earned surplus relating to 10,947 preferred shares purchased for cancellation.
5. During the year the company converted from the taxes payable to the tax allocation basis of computing the provision for income taxes.

For the year ended January 31, 1969 accounting income exceeds income for tax purposes by \$300,000 and the related provision for income taxes of \$160,000 has been shown in the balance sheet as deferred income taxes.

For the years prior to 1969 the net accumulated total of such differences between accounting and taxable income amounts to \$1,190,000 and the related unrecorded deferred taxes to \$630,000.

6. Minimum annual rentals under long-term leases, the longest of which will expire in 1998, amount to approximately \$5,300,000.

89,430 actions ordinaires ont été émises, selon le plan d'achat d'actions des employés, pour une considération en espèce de \$487,565;

Les actions ordinaires ont été fractionnées sur la base de quatre nouvelles actions pour une action déjà existante.

4. La réserve pour rachat d'actions privilégiées a été augmentée, au cours de l'année terminée le 31 janvier 1969, de \$547,350 viré du surplus gagné pour couvrir les 10,947 actions privilégiées rachetées et annulées.

5. Au cours de l'année, la compagnie a adopté la méthode de la répartition d'impôt pour le calcul de la provision pour impôts sur le revenu. Auparavant la méthode employée était celle de l'impôt à payer.

Pour l'année terminée le 31 janvier 1969, les revenus aux livres excèdent les revenus aux fins d'impôts par \$300,000 et la provision pour impôts sur le revenu de \$160,000, s'y rapportant, a été montrée au bilan sous la rubrique impôts différés sur le revenu.

Pour les années antérieures à 1969, le montant cumulatif net de ces différences entre les revenus aux livres et pour fins d'impôts, se chiffrait à \$1,190,000 et les impôts différés, s'y rapportant, se chiffraient à \$630,000.

6. Les loyers annuels minimum, en ce qui à trait aux baux à long terme, se chiffrent à approximativement \$5,300,000. Le plus long de ces baux se termine en 1998.

## AUDITORS' REPORT

To the Shareholders of Zeller's Limited:

We have examined the consolidated balance sheet of Zeller's Limited and Subsidiary Companies as at January 31, 1969 and the consolidated statement of earnings and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1969 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte, Plender, Haskins & Sells  
Auditors.

March 7, 1969.

## RAPPORT DES VÉRIFICATEURS

Aux actionnaires de Zeller's Limited:

Nous avons examiné le bilan consolidé de Zeller's Limited et filiales au 31 janvier 1969 ainsi que l'état consolidé des bénéfices et du surplus gagné pour l'année terminée à cette date. Notre examen a été fait conformément aux normes de vérification généralement reconnues et, par conséquent, a comporté tels sondages des registres comptables et autres procédés de vérification que nous avons considérés comme nécessaires dans les circonstances.

A notre avis, ces états financiers consolidés présentent fidèlement la situation financière des compagnies au 31 janvier 1969 ainsi que les résultats de leur exploitation pour l'année terminée à cette date, conformément aux principes comptables généralement reconnus, appliqués de la même manière qu'au cours de l'année précédente.

Deloitte, Plender, Haskins & Sells  
Vérificateurs.

le 7 mars 1969.



## SOURCE AND DISPOSITION OF FUNDS

1964 - 1968

### WHERE FUNDS CAME FROM

(Amounts in Thousands)

	1968	1967	1966	1965	1964	Total 5 Years
Net Earnings from Operations .....	\$ 6,403	\$ 6,124	\$ 4,838	\$ 4,262	\$ 3,064	\$24,691
Depreciation (No Cash Outlay) .....	1,633	1,482	1,383	1,278	1,187	6,963
Deferred Income Taxes (No Cash Outlay) .....	160	—	—	—	—	160
Net Proceeds 7% Debentures .....	—	—	5,828	—	—	5,828
Disposal of Fixed Assets .....	145	158	—	—	1,140	1,443
Sale of Common Shares to Employees ..	488	541	218	272	138	1,657
Proceeds of Stock Dividend .....	—	5	27	14	38	84
<b>Total Funds Available .....</b>	<b>\$ 8,829</b>	<b>\$ 8,310</b>	<b>\$12,294</b>	<b>\$ 5,826</b>	<b>\$ 5,567</b>	<b>\$40,826</b>

### HOW FUNDS WERE USED

(Amounts in Thousands)

Dividends Paid Shareholders .....	\$ 2,922	\$ 2,348	\$ 2,026	\$ 1,711	\$ 1,400	\$10,407
Purchase of Fixtures and Improvements .....	3,028	1,609	2,198	1,349	1,288	9,472
Redemption of Debentures .....	377	394	102	211	122	1,206
Redemption of Preferred Shares .....	452	92	102	101	93	840
Special Refundable Tax .....	(303)	73	230	—	—	—
Purchase of Land and Buildings .....	—	—	—	—	154	154
<b>Total Funds Used .....</b>	<b>\$ 6,476</b>	<b>\$ 4,516</b>	<b>\$ 4,658</b>	<b>\$ 3,372</b>	<b>\$ 3,057</b>	<b>\$22,079</b>

Increase in Working Capital .....	2,353	3,794	7,636	2,454	2,510	18,747
<b>Working Capital at Year End .....</b>	<b>\$35,981</b>	<b>\$33,628</b>	<b>\$29,834</b>	<b>\$22,198</b>	<b>\$19,744</b>	

## HIGHLIGHTS OF GROWTH

Five Years and 1959 for Comparison

	1968	1967	1966	1965	1964	1959
<b>OPERATING ITEMS</b>						
SALES	\$142,873	\$132,740	\$117,150	\$102,847	\$86,036	\$53,341
Number of Stores at Year-End	119	112	110	106	103	69
Sales per Store	1,201	1,185	1,065	970	835	773
Employees' Compensation & Benefits	25,511	22,706	20,123	17,177	15,074	9,436
Percent of Sales Dollar	17.86	17.11	17.18	16.70	17.52	17.69
Depreciation Charge	1,633	1,482	1,383	1,278	1,187	735
Earnings before Income Taxes	13,433	12,899	9,868	8,662	6,254	3,839
Percent of Sales Dollar	9.40	9.72	8.42	8.42	7.27	7.20
Federal and Provincial Income Taxes	7,030	6,775	5,030	4,400	3,190	1,830
Net Earnings	6,403	6,124	4,838	4,262	3,064	2,009
Percent of Sales Dollar	4.48	4.61	4.13	4.14	3.56	3.77
<b>SHAREHOLDER ITEMS</b>						
Income Taxes per Common Share	.56	.54	.41	.36	.26	.15
Earnings per Common Share	.50	.48	.38	.33	.24	.15
Dividend per Common Share	.22	.17½	.15	.12½	.10	.07½
Common Shareholders' Equity	34,337	30,152	25,783	22,883	20,050	14,887
Equity per Common Share	2.73	2.41	2.09	1.87	1.65	1.24
<b>FINANCIAL ITEMS</b>						
Cash and Short Term Investments	2,484	2,340	1,587	1,826	2,644	8,074
Merchandise Inventories	22,128	18,762	17,120	14,453	11,983	5,779
Accounts Receivable (Net)	28,374	24,635	20,713	16,759	10,798	1,615
Working Capital	35,981	33,628	29,834	22,198	19,745	12,341
Fixed Assets (Net Book Value)	13,647	12,316	12,346	11,529	11,459	9,956
Capital Expenditures	3,028	1,609	2,198	1,349	1,442	1,263

All figures expressed in thousands of dollars except as otherwise indicated and adjusted where applicable for the four-for-one subdivision of shares on May 22, 1964 and again on May 10, 1968.

## WHY CUSTOMERS SHOP AT ZELLER'S

### PRIVATE BRANDS AND PACKAGING

It has been the Company's continuing policy to develop its own nationally known brand-name merchandise lines. The success of this programme is largely a result of the co-operation our Buyers have received from the Company's suppliers. Quality control and our customers' assurance of value are inherent in the extension of private brands into almost every major merchandise category. The result of this programme is that Zeller's brand names such as ZELLER CREST, BOUNCING BABY and ZELCO, to mention only a few, have been accepted by the Canadian shopper with confidence in the Company's guarantee of satisfaction.

The promotion of private brands also requires Zeller's involvement in the development of better packaging. Packaging has become more important with the growth of self-selection shopping in the Company's suburban department stores. The package design must not only associate itself with the private brand but must lend itself to attractive counter display, protect against counter soiling, improve the handling of the merchandise prior to its sale and, most important, include accurate, bilingual information concerning its manufacture and use which will assist the customer in making her selection.

Zeller's own brand-name merchandise now accounts for a significant proportion of the Company's sales and is constantly growing.

### SALES PROMOTION AND ADVERTISING

Providing its customers with an attractive, exciting environment in which to shop is a primary responsibility of our advertising and sales promotion programmes. A National Sales Calendar composed of weekly sale events enables the Company's Buyers to select

## POURQUOI LES CLIENTS SONT FIDÈLES À ZELLER'S

### MARQUES PARTICULIÈRES ET EMBALLAGES

La compagnie a toujours eu pour ligne de conduite de développer des catégories d'articles vendus sous sa propre marque, connu dans tout le pays. Le succès qu'elle a obtenu dans ce domaine provient en grande partie du concours que nos fournisseurs ont toujours accordé aux acheteurs de la compagnie. Le contrôle de la qualité, et l'assurance pour nos clients de recevoir des articles avantageux sont intimement liés au progrès des marques particulières, pour la plupart des catégories importantes de produits. Cette ligne de conduite a eu pour résultat le succès remporté par des marques comme ZELLER CREST, BOUNCING BABY et ZELCO, pour n'en citer que quelques-unes, auprès des clients qui ont confiance dans la garantie de satisfaction offerte par la compagnie.

L'importance accordée aux marques particulières a entraîné de la part de Zeller's un intérêt correspondant dans le perfectionnement des emballages. Ces derniers revêtent plus d'importance que jamais depuis le développement du libre-service dans les magasins de banlieue de la compagnie. Le modèle d'emballage doit non seulement être relié à la marque particulière qu'il présente, mais protéger le produit à l'étagage, en faciliter la manutention avant la vente et offrir, dans les deux langues, des renseignements précis sur sa composition et son emploi afin de faciliter le choix du client.

Une proportion significative des ventes de la compagnie est réalisée par la marchandise portant la marque Zeller et cette proportion augmente de plus en plus.

### CAMPAGNES DE VENTE ET PUBLICITÉ

Nos campagnes de vente et nos programmes publicitaires ont pour but principal de créer pour nos clients une ambiance attrayante et stimulante pour y faire leurs emplettes. Un calendrier national indiquant pour chaque semaine les ventes spéciales qui auront lieu dans toutes les régions du pays, permet aux acheteurs de la compagnie de choisir les articles dont la vente sera la plus opportune à un moment donné.

**Zeller Crest**

**ALL WOOL SUITS**

- Fine Quality
- Superb Tailoring
- Up-To-Date Styling

**\$65.00**

**Rendezvous**

**Lightweight yet firm figure control**

- Double lycra panels
- Extra snap-in gusset
- S-M-L XL

**\$5.00**

**Zeller Crest**

**Denim 10 oz**

- Prérétréci
- Genoux doubles
- Grand standard canadiennes

**\$2.9**

**Zeller Crest**  
**Permanent Press**  
**finish**



- Won't stretch out of shape
- Shrink resistant
- Canadian size standards
- Long sleeve

**\$1.19**

**Zeller Crest**  
**100% VIRGIN WOOL**  
**KNITTING WORSTED**



- Colour fast
- Shrinkproof
- Mothproof
- 3 ply-2 oz. Skein

**69¢**  
skein

**Zeller Crest**  
**FABRICATION CANADIENNE**



- Siège ballon
- Coupes amples
- Prérétrécis

**\$5.00**

timely merchandise values for all areas of the country. Special display properties for different sale events provide not only customer identification but produce an interesting variety in store interior decor. A supporting advertising message is provided to all stores. This may take the form of copy and artwork necessary to prepare advertising for local newspaper publication. In support of major sales events such as school opening or Easter, advertising circulars are produced at the Company's Head Office for distribution to each participating store.

The changing sales promotion activities scheduled in the Company's stores not only present its customers with timely merchandise values, but provide a pleasurable shopping atmosphere. It is this atmosphere of excitement that is reflected in the name of Zeller's "County Fair" which is applied to our free-standing suburban department stores.

### SUPER VALUES

Zeller's Super Value Programme perhaps best illustrates the Company's marketing philosophy of providing its customers with quality merchandise at the lowest possible price. The Super Value Programme consists of a number of merchandise items, all of which are exclusive to Zeller's and labelled with one of our family of brand names. These items are distinctively displayed and signed in all of the Company's stores from coast to coast so as to be easily recognized. Each merchandise value in the Programme must, by reason of its construction, style or some other quality, be superior to that offered by competition at its particular price. Each item must through year-

Un matériel d'étalage prévu pour chaque vente spéciale sert non seulement à familiariser le client avec le produit mais à varier selon les circonstances la décoration intérieure du magasin. Tous les magasins reçoivent, en même temps, les éléments d'une publicité efficace appropriée, tels que des textes et des montages permettant de présenter de la publicité dans les journaux locaux. Comme appui lors de ventes spéciales très importantes, par exemple à la rentrée des classes et à Pâques, le siège social de la compagnie se charge de préparer des circulaires de publicité qui sont distribuées aux différents magasins.

Cette succession et cette diversité des manifestations publicitaires dans les magasins de la compagnie, non seulement font bénéficier les clients d'occasions spéciales à certaines époques déterminées mais confèrent aux magasins une ambiance originale dans laquelle les clients viendront avec plaisir faire leurs achats. C'est cette ambiance qu'exprime, par exemple, le nom de "County Fair" qu'on a donné à nos grands magasins de banlieue non compris dans un centre d'achat.

### SUPER-VALEURS

Le programme Zeller's des "Super-valeurs" illustre parfaitement les principes appliqués par la compagnie pour offrir à sa clientèle des marchandises de qualité au prix le plus avantageux possible. Le programme des "Super-valeurs" comporte un certain nombre d'articles exclusifs à Zeller's et portant l'une de ses étiquettes de marques particulières. Toutes ces marchandises font l'objet d'une présentation spéciale, caractéristique, qui permet de les reconnaître dans tous les magasins de la compagnie, partout au Canada. Chacun de ces articles spéciaux doit, par sa fabrication, son style, ou par quelque autre de ses qualités,

**Zeller Crest**



**"STAY UP"**  
**STRETCH**  
**SOCKS**

- GUARANTEED TO WEAR 1 YEAR
- 100% DUPONT NYLON
- ONE SIZE FITS ALL

**\$1.00**

**Zeller Crest**  
**COMBED**  
**PIMA COTTON**



- Stays Snug
- Keeps Shape
- Retains Size after repeated washings
- Canadian size standards

**\$1.00**  
S-M-L-XL

**Zeller Crest**  
**Coton peigné à 100%**



- Siège double à la grandeur
- Ceinture renforcée de Lycra
- Grand standard Canadien

**\$1.49**

Le sachet de 2

round or seasonal sales appeal and outstanding value have achieved volume sales performance.

The Super Value Programme was first introduced in July, 1964 and since that time has been the subject of a thorough annual review by the Company's Management to ensure that its composition meets changing customer buying patterns. Each Super Value item is tested initially to determine its quality specifications, which provides the information for follow-up quality control checks on future shipments. The fact that each Super Value item bears a Zeller's brand is based on the judgement that strong customer loyalties are best established by offering recognizable merchandise values which may be purchased exclusively in Zeller's stores.

### STANDARDS OF CUSTOMER SERVICE

The Company takes great pride in the abilities of its sales personnel at each of the 119 store locations. These employees have been trained with the customer's needs in mind. They realize that their foremost responsibility is to ensure that Zeller's is a pleasant place to shop and that Zeller's sales people are known as being friendly, courteous and well-informed about the merchandise they are selling.

The effectiveness of store sales training is checked by professional shopping services on a scheduled basis. Through this approach competence in serving our customers can be encouraged and recognized. Emphasis is also placed upon good housekeeping and orderly displays.

In order to win customer confidence, our sales personnel must have equal confidence in the quality of the merchandise assortments they have to offer our customers. Backing up each sale is the Company's guarantee of satisfaction or money cheerfully refunded. Our store employees are all dedicated to the meaning of the letters S.O.S. These letters represent Standard of Service and are the Company's pledge to provide its customers with service that meets the highest standards.



EQUAL TO NATIONALLY ADVERTISED BRANDS AT 10.14

surpasser tout produit concurrent de prix sensiblement équivalent. Chaque article doit, grâce à ses qualités exceptionnelles et à la vogue dont il jouit pendant toute l'année ou en certaines saisons, avoir mérité le rang d'article de grande vente.

Le programme des "Super-valeurs" a été créé en juillet 1964. Depuis cette époque, il a fait l'objet d'un examen annuel méticuleux par les dirigeants de la compagnie, pour s'assurer qu'il réponde constamment aux goûts changeants de la clientèle. Chaque "Super-valeur" est d'abord mise à l'essai pour établir les qualités particulières qu'elle doit posséder et qui serviront ensuite de critères pour les livraisons ultérieures. Le fait que chacun de ces articles porte une des marques Zeller's s'appuie sur cette constatation que les clients restent le plus souvent fidèles à des marchandises de qualité, facilement reconnaissables, et vendues exclusivement dans les magasins Zeller's.

### LA QUALITÉ DU SERVICE AUX CLIENTS

La compagnie est justement fière des qualités dont fait preuve le personnel de ventes de ses 119 magasins. Ces employés ont appris à se soucier constamment des désirs du client. Ils sont conscients d'avoir à créer autour d'eux l'impression que les magasins Zeller's sont un milieu où il est agréable d'acheter, où le client est accueilli avec courtoisie par des vendeurs bien renseignés sur les articles qu'ils peuvent offrir.

L'efficacité de notre programme de formation des vendeurs est vérifiée régulièrement par des services professionnels chargés de mettre à l'épreuve la compétence et l'affabilité de notre personnel. On attache également la plus grande importance à l'ordre et à la tenue des comptoirs et des étalages.

Pour gagner la confiance des clients, notre personnel de vente doit lui-même être convaincu de la qualité des articles qu'il est chargé de vendre. Pour chaque vente, la compagnie répond de la satisfaction du client, faute de quoi elle est prête à rembourser celui-ci, sans hésitation. Tous nos employés de magasin sont parfaitement conscients que la qualité du service est un engagement pris par la compagnie envers ses clients et qu'ils sont, par délégation, chargés de remplir vis-à-vis de ceux-ci, en y apportant tout leur zèle et tous leurs soins.

119 STORES  
SERVING CANADIANS  
FROM COAST TO COAST

**ONTARIO**

Barrie	Hamilton (2)	Oshawa (2)
Belleville	Kingston (2)	Ottawa (2)
Brantford	Kitchener	Pembroke
Brockville	Lindsay	Peterborough
Chatham (2)	London (2)	Port Arthur (2)
Cobourg	Midland	St. Catharines (3)
Cornwall (2)	Newmarket	St. Thomas
Fort William	Niagara Falls	Sarnia
Galt	North Bay	Sudbury (2)
Grimsby	Oakville	Toronto Area (10)
Guelph	Orillia	Trenton

**QUEBEC**

Chateauguay	Jonquière	Sept-Îles
Chicoutimi (2)	Montreal Island (10)	Sorel
Drummondville	Quebec (4)	St. Eustache
Duvernay	Rimouski	St. Hyacinthe
Granby	Sherbrooke (2)	Trois-Rivières
Hull		

**ATLANTIC PROVINCES**

Bridgewater	Sydney	Fredericton
Dartmouth	Truro	Moncton
Halifax (2)	Yarmouth	Newcastle
Kentville	Charlottetown	Saint John
New Glasgow	Bathurst	

**WESTERN CANADA**

Winnipeg (4)	Edmonton (3)	New Westminster
Moose Jaw	Lethbridge	North Surrey
Regina	Burnaby (2)	Port Alberni
Yorkton	Kamloops	Richmond
Calgary (3)		

**Zeller's**

FOUNDED IN MONTREAL IN 1931

AR02



## EXPANSION PROGRAMME 1968

### NEW STORES

Chicoutimi, Quebec  
Place Saguenay  
Size: 79,100 sq. ft.

Cobourg, Ontario  
Zeller's County Fair  
Size: 65,900 sq. ft.

Richmond, B.C.  
Richmond Square  
Size: 70,200 sq. ft.

Lethbridge, Alberta  
Zeller's County Fair  
Size: 65,600 sq. ft.

### Enlargement:

Brockville, Ontario  
Size: from 36,400 sq. ft.  
to 55,500 sq. ft.

Yorkton, Saskatchewan  
Broadway Park Plaza  
Size: 59,500 sq. ft.

Cornwall, Ontario  
The Mall of Cornwall  
Size: 88,500 sq. ft.

Calgary, Alberta  
Zeller's County Fair  
Size: 82,350 sq. ft.

Fredericton, N.B.  
Downtown  
Size: 65,500 sq. ft.

### New Distribution Centre:

Montreal North, Quebec  
Size: 136,500 sq. ft.



*file*  
**Zeller's**  
RETAILERS TO THRIFTY CANADIANS

SEMI-ANNUAL  
REPORT 1968



**ZELLER'S LIMITED**

Founded in Montreal in 1931

## To the Shareholders:

The results for the first half of our 1968 fiscal year are set out in the accompanying Statement of Earnings. This Statement reports on our performance as reflected in the books of the Company, without review by its Auditors. In summary, during the six months sales increased by 10.2% over those for the comparable period last year, while net earnings rose by 19.3% in the same period.

Sales and net earnings for the first six months of 1968 have again reached record levels. Sales volume totalled \$59,016,193 which was an increase in dollars of \$5,462,443 or 10.2% over the first half of 1967.

While sales for the first six months of 1968 were gratifying, a softer trend did develop during the second quarter because of, we believe, generally unseasonable weather and the absence of the same economic stimulation that was provided by the Centennial activities including Expo 67, during the same period last year.

In spite of higher store opening expenses incurred because of a larger capital programme during the first six months of 1968 compared to last year, net earnings for the period were improved. Net earnings after provision for income taxes were \$1,566,328 which was an increase in dollars of \$253,380 or 19.3% over the first six months of 1967. These earnings were equal, after payment of preferred dividends, to 12¢ per common share in comparison to the figure of 10¢ one year ago. The earnings per common share for both six month periods reflect the subdivision of the common shares four for one on May 10, 1968.

Dividends paid during the period under review included the two regular quarterly dividends of 56½¢ per share on the preferred stock. To date in the 1968 fiscal year two quarterly dividends of 5½¢ have been paid on each common share. There were 12,555,930 common shares outstanding at the end of the first half of 1968, compared to 12,407,360\* shares outstanding on the same date last year.

## ZELLER'S LIMITED AND SUBSIDIARIES

### Interim Consolidated Statement of Earnings

Sales . . . . .
Cost of Merchandise and Operating Expenses . . . . .
Earnings before Income Taxes . . . . .
Provision for Income Taxes . . . . .
Net Earnings . . . . .
Earnings per Common Share . . . . .

\* Adjusted to reflect the four for one subdivision.

### Consolidated Statement of Changes in Financial Position

WHERE FUNDS CAME FROM
Net Earnings from Operations . . . . .
Depreciation (No Cash Outlay) . . . . .
Issue of No-Par Value Common Shares . . . . .
Total Funds Available . . . . .

HOW FUNDS WERE USED
Purchase of Fixtures and Improvements . . . . .
Dividends Paid Shareholders . . . . .
Preferred Shares Redeemed . . . . .
Redemption of Debentures . . . . .
Special Refundable Tax . . . . .
Total Funds Used . . . . .

Increase (Decrease) in Working Capital . . . . .
Working Capital at End of July . . . . .

# COMPANIES

## Statement of Earnings

SIX MONTHS ENDED JULY	
1968	1967
\$59,016,193	\$53,553,750
55,689,865	50,874,802
3,326,328	2,678,948
1,760,000	1,366,000
<u>\$ 1,566,328</u>	<u>\$ 1,312,948</u>
12¢	10¢*

Division of shares on May 10, 1968

## Source and Disposition of Funds

SIX MONTHS ENDED JULY	
1968	1967
..... \$ 1,566,328	\$ 1,312,948
..... 769,350	709,230
shares . . . . .	195,906
..... \$ 2,680,886	\$ 2,218,084
 ..... \$ 1,270,996	\$ 758,651
..... 1,463,114	1,170,783
..... 57,660	41,880
..... 151,010	178,138
..... —	49,879
..... \$ 2,942,780	\$ 2,199,331
 ..... \$ (261,894)	\$ 18,753
..... \$33,366,285	\$29,892,140

The expansion programme for 1968 is set out in detail on the back cover of this report. Three new suburban stores were added during the first six months, one successful existing store underwent a major enlargement, and our downtown store in Halifax, Nova Scotia was modernized. With the opening of the new store at Lethbridge, Alberta during the month of August, there will be 116 Zeller's stores operating across Canada.

Construction of the new store in downtown Fredericton, New Brunswick is now well advanced. The rebuilt store will offer fifty percent more selling space than the former one and the opening of this unit is scheduled for early in October. In addition, construction is proceeding according to schedule in Montreal North on the new Distribution Centre of 136,500 square feet. It is expected to be in operation late in the Fall of this year.

The 1968 expansion programme will add approximately 560,000 square feet to the Company's store area. Plans for the Company's expansion programme in 1969 are now well advanced. When the programme reaches its final form, it will include the addition of eight to ten new large suburban stores, with two and possibly three successful existing stores being enlarged or modernized. The stores will be the larger size and the junior department store type that we have found to be best suited to maintain and improve the Company's position in Canadian retailing.

The operating results achieved during the first half of our current fiscal year provide a basis for confidence in the overall results for 1968. We anticipate that the 1968 capital programme will in total make a contribution to the Company's earnings for the full year. There is reason therefore, to expect that the net earnings of the Company for 1968 will exceed the record year of 1967, when the Company earned \$6,124,334 or 48¢\* per common share on sales of \$132,740,101.

*James G. Kendrick*  
JAMES G. KENDRICK,  
President

Montreal, Quebec, August 26, 1968.

## Aux Actionnaires:

**Le relevé** ci-joint des profits et pertes indique les résultats du premier semestre de notre exercice 1968. Cet état, non revu par nos vérificateurs, rend compte du rendement de notre entreprise d'après ses livres. En résumé, au cours de cette période nos ventes ont augmenté de 10.2% par rapport au chiffre qu'elles avaient atteint au cours de la période correspondante de l'exercice précédent et qu'au cours du même semestre notre bénéfice net s'est accru de 19.3%.

**Les ventes et le bénéfice net** pour les six premiers mois de 1968 marquent un nouveau sommet. Le chiffre des ventes s'établit à \$59,016,193, soit \$5,462,443 ou 10.2% de plus que pour le premier semestre de 1967.

Néanmoins, bien que le chiffre d'affaires, pour la première moitié de 1968, soit satisfaisant, le deuxième trimestre a été marqué d'une légère baisse attribuable, croyons-nous, à un temps généralement peu conforme à la saison, ainsi qu'à l'absence des stimulants économiques que constituaient, au cours de la période correspondante de l'année dernière, les célébrations du Centenaire, et notamment l'Exposition internationale et universelle de Montréal.

En dépit de frais plus élevés de mise en train de nouveaux magasins, par suite d'un programme plus important d'immobilisations au cours du premier semestre de 1968 que pendant les six premiers mois de 1967, notre bénéfice net pour la période écoulée a été supérieur. En effet, déduction faite de la provision pour impôts sur le revenu, ce bénéfice a atteint le chiffre de \$1,566,328, soit \$253,380 ou 19.3% de plus que pour le premier semestre de 1967. Ce bénéfice, après paiement des dividendes privilégiés, équivaut à 12¢ l'action ordinaire, à rapprocher de 10¢ pour la période correspondante de 1967. Ces deux derniers chiffres tiennent compte du fractionnement des actions ordinaires, à raison de quatre pour une, effectué le 10 mai 1968.

**Les dividendes versés** au cours des six premiers mois de 1968 comprennent les deux dividendes trimestriels ordinaires de 56½¢ par action sur les actions privilégiées. Jusqu'ici, au cours de l'exercice 1968, deux dividendes trimestriels de 5½¢ ont été versés sur chaque action ordinaire. Il y avait 12,555,930 actions ordinaires en cours à la fin du premier semestre de 1968, à comparer à 12,407,360\* à pareille date l'an dernier.

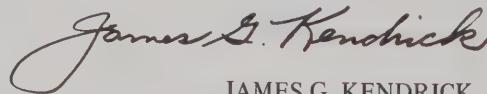
**Le programme d'expansion** de 1968 est exposé en détail sur la quatrième page de couverture de ce rapport. Trois nouveaux magasins de banlieue ont été ouverts au cours du premier semestre de 1968, un magasin existant a été considérablement agrandi et notre magasin du centre de la ville de Halifax, en Nouvelle-Ecosse, a été modernisé. Après l'ouverture, en août, du nouveau magasin de Lethbridge, en Alberta, il y aura 116 magasins Zeller en service dans tout le Canada.

Les travaux du nouveau magasin du centre de Fredericton, au Nouveau-Brunswick, sont très avancés. Dans le magasin reconstruit, l'espace réservé à la vente sera de 50% supérieur à ce qu'il était dans l'ancien magasin. L'ouverture en est prévue pour le début d'octobre. De plus, la construction du nouveau centre de distribution de Montréal-Nord, qui mesurera environ 136,500 pieds carrés, avance conformément au programme, et sa mise en service est prévue pour la fin de l'automne 1968.

Le programme d'expansion de 1968 ajoute quelque 560,000 pieds carrés d'espace aux magasins de la compagnie. La préparation du programme de 1969 est déjà très avancée, et dans sa forme définitive, il comprendra l'addition de huit à dix nouveaux grands magasins de banlieue, ainsi que l'agrandissement ou la modernisation de deux et peut-être de trois magasins actuels. Les nouveaux établissements seront des magasins importants, du type "magasin à rayons moyen" qui s'est révélé le plus propre à améliorer la situation de la compagnie dans le domaine du commerce de détail.

**Les résultats d'exploitation** obtenus au cours du premier semestre de notre présent exercice financier font prévoir des résultats favorables pour l'année entière. Nos prévisions indiquent que le programme d'immobilisations de 1968 contribuera dans l'ensemble au bénéfice de la compagnie pour l'exercice. Il y a donc lieu de s'attendre à ce que le bénéfice net de l'entreprise soit, pour 1968, plus élevé que pour l'année record de 1967, alors qu'il s'était élevé à \$6,124,334, ou 48¢\* par action ordinaire, sur un chiffre de ventes de \$132,740,101.

Le président,



JAMES G. KENDRICK

Montréal (Québec), le 26 août 1968.

AR02

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ZELLER'S LIMITEDSUMMARY AND CONCLUSION

Zeller's Limited is the third largest variety chain in Canada (after Woolworth's and Kresge's). The Company operates a chain of 112 variety and junior department stores across Canada and in 1967 had a sales volume of \$132.7 million and net profit of \$6.1 million. W. T. Grant Company, the third largest general merchandise retailer in the U.S., owns 51% of Zeller's common stock.

Although the majority of the stores operated are of the variety type, the Company in recent years has opened fourteen junior department stores. These stores, identified as Zeller's "County Fair", are of the self-service type, each having an area between 56,000 and 100,000 square feet. Thus Zeller's image is changing from that of strictly a variety goods operator to more of a general merchandise retailer. The lines of merchandise handled by the Company have been upgraded to include items of the department store class, such as rugs, furniture, home entertainment and sporting goods. The increasing emphasis on home and hard lines has resulted in a rapid expansion of credit sales, with a corresponding increase in credit receivables.

Reflecting an aggressive expansion program, sales increased at a rate of 15.6% annually in the 1963-67 period. Profit margins widened and as a result net profit increased 30.1% annually in this period; earnings per share rose 30.5% annually.

Zeller's balance sheet shows funded debt (27%) and preferred (8%) at only 35% of capitalization, a relatively low proportion for a retailer. However, most of the Company's stores are leased, not owned, and lease payments currently are at a \$4.3 million annual rate. If these leases are capitalized it is evident that the Company is employing considerable financial leverage. As credit sales grow Zeller's will need to raise capital to support these sales which amounted to \$26 million in 1967. To support the expected further growth in receivables, Zeller's will establish within the near future a Zeller Credit Corporation for the purpose of financing the Company's credit receivables through the issuance of short term paper.

Research Department

We believe the information contained herein to be correct and while not guaranteed, has been obtained from sources which we believe to be reliable.

Based on continued increases in personal disposable income and maintenance of the Company's expansion program, we estimate that sales for Zeller's over the next five years can grow in excess of 10% annually. Since profit margins are unlikely to show significant further increases, per share earnings are likely to increase about in line with sales.

At the recent market price of \$14 the stock sells at 25.5 times estimated 1968 earnings of \$0.55 per share and on the \$0.22 annual dividend yields 1.7%. Encouraged by signs of strong earnings growth, investors have pushed Zeller's shares up by more than 20% since April 30th. While some consolidation appears likely over the near term, we feel that the shares offer above average appreciation potential over the medium to longer term.

#### INDUSTRY BACKGROUND

TABLE I

<u>Personal Disposable Income</u>	<u>Total Retail Trade*</u>	<u>Department Store Sales</u>	<u>Variety Chain Sales</u>	<u>Zeller's Limited Sales</u>
..... Millions of Dollars .....				
1958	22,880	13,032	1,345	316
1959	23,948	13,668	1,420	330
1960	25,051	13,944	1,453	350
1961	25,995	14,292	1,504	371
1962	28,080	15,112	1,562	391
1963	29,861	15,744	1,644	408
1964	31,612	16,788	1,800	456
1965	34,990	16,944	2,052	528
1966	38,278	18,188	2,196	598
1967	40,587	19,476	2,371	676
1958-67				
11.2%				

\* Excluding motor vehicles

#### Average Annual Growth

1958-67	6.6%	4.5%	6.5%	8.7%	11.2%
1963-67	8.0%	5.4%	9.7%	13.5%	15.6%

The dozen years following the end of World War II were dismal ones for the variety store industry. In the 1946-1957 period sales failed to keep pace with personal disposable income. The competitive onslaught of supermarkets and independent discounters, who began to include typical variety store items in their merchandise lines, plus the sluggish pace at which the variety chains followed the residential exodus to the suburbs, were the principal causes of this unimpressive sales performance.

The past five years, however, have been exceptionally favourable ones for Canadian retailers. Buoyed by an 8% annual increase in personal disposable income and an 8% annual increase in consumer spending, department store sales have increased 9.7% annually and variety store sales 13.5% annually during this five year period.

By examining Table I and Table II it is evident that total retail sales have grown at a slower rate than personal disposable income and personal expenditures during the past decade. This slower rate is primarily the result of the increasing expenditures on services.

TABLE II

<u>Total Expenditures</u>	<u>Durable Goods</u>	<u>Non-Durable Goods</u>	<u>Services</u>
..... Millions of Dollars .....			
1958	21,245	2,499	10,878
1959	22,591	2,678	11,373
1960	23,512	2,669	11,785
1961	24,486	2,697	12,257
1962	25,749	2,913	12,877
1963	27,230	3,207	13,379
1964	29,431	3,558	14,355
1965	32,063	4,001	15,434
1966	34,840	4,169	16,913
1967	36,984	4,341	18,092
<u>Average Annual Growth</u>			
1958-67	6.4%	6.3%	5.9%
1963-67	8.0%	7.4%	7.4%
			7.1%
			8.2%

The growth of expenditures on services is expected to continue strongly through 1972, but at a slower rate than in the past. On the other hand, expenditures on consumer goods are expected to grow faster than expenditures on services as new and replacement demand increases reflecting the steep projected rise in family formations in the first half of the 1970's.

Consistent with this projection and based on the accumulated historical record of the current decade, we foresee a favourable climate through 1972 for variety stores - and retail trade in general.

Although still classified by the Dominion Bureau of Statistics as a variety chain, Zeller's Limited entered the junior department store business in 1962 with the construction of its first large suburban department store. It is estimated that the fourteen department stores currently in operation account for approximately 12%-15% of the Company's sales.

Zeller's major competitors in the variety store business in Canada, namely Woolworth's and Kresge's, have also expanded into suburban shopping centres and have moved into discounting. Undoubtedly these factors have contributed to the exceptionally strong performance of the variety chains in the past few years.

Zeller's record as set out in Table I is excellent; the Company's sales growth during the period consistently exceeded that of the industry by a substantial margin.

#### HISTORY AND BACKGROUND

In 1932 Mr. Walter P. Zeller purchased the assets of a 13 store variety chain and these stores formed the basis for the present company. Zeller's now operates a chain of 112 variety stores and junior department stores across Canada. Sales in the fiscal year which ended on January 31, 1968 were in excess of \$132 million.

After World War II the Company expanded rapidly and by 1957 Zeller's was operating a chain of 63 general merchandise stores. In the 1950's management wisely emphasized stores in the newly-developing suburban shopping centres.

Prior to 1960 Zeller's stores were the traditional variety-type units containing average selling area of 15,000 square feet. Merchandise handled was largely oriented to the orthodox variety store items including small wares such as toiletries, notions, stationery and hardware but with special emphasis on family apparel and accessories. In the late 1950's Zeller's added merchandise lines such as rugs, furniture, home entertainment and sporting goods, previously found only in other types of stores.

Since 1960, the Company has opened much larger stores and in 1962 the first large suburban department store was opened. Since the opening of this store, Zeller's has added 13 "County Fair" department stores, or similar large units. These stores range in size from 56,000 to 100,000 square feet. "County Fair" identifies a large free-standing Zeller's department store with an adjoining food supermarket plus, where space permits, up to 10,000 square feet for service shops. Of the 112 stores in operation today, 55 are free-standing or in shopping centres. These account for 54% of the Company's sales. Four of the "County Fair" units incorporate complete drug departments, and six feature Auto centres.

Although Zeller's does not release a breakdown of sales, some indication of the success of the department store units is given by the growth in credit sales, which have increased from less than 10% of total company sales in 1960 to 19.3% in 1967.

In recent years the most significant feature of Zeller's operation has been the scope and success of the expansion program initiated in 1960: this is documented in Table III below.

TABLE III

	<u>No. of Stores</u>	<u>Sales - \$Mln. -</u>	<u>Selling Area 000 sq. ft.</u>	<u>Sales Per Square Foot</u>
1958	67	\$ 49.8	683	\$ 72.91
1959	69	53.3	798	66.79
1960	80	57.0	967	58.95
1961	94	62.9	1,232	51.10
1962	100	68.8	1,373	50.11
1963	100	74.0	1,486	49.80
1964	103	86.0	1,631	52.73
1965	106	102.8	1,742	59.01
1966	110	117.2	1,993	58.81
1967	112	132.7	2,122	62.54
<u>Average Annual Growth</u>				
1958-67	+ 5.8%	+ 11.2%	+ 13.5%	- 1.8%

The Company's expansion program has also involved the remodelling and enlarging of existing stores and the closing down of smaller, unprofitable units. Also, in the early 1960's, Zeller's entered the shoppers' restaurant business. There are now 35 such units in stores across Canada.

Zeller's has been increasing its emphasis on private brand merchandise, particularly in the big volume items. Zeller's brands are now national in scope and consumer acceptance of these products has been favourable.

W. T. Grant Company, the third largest general merchandise retailer in the United States with 1,087 stores in 46 states and annual sales of \$980 million, owns 51% of the common stock of Zeller's. Through this affiliation, Zeller's has access to the U.S. company's extensive retail experience and also has the opportunity to participate in W. T. Grant's import buying program.

OPERATING RECORD

	Average Growth <u>1963-67</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Sales (\$000)	15.6%	\$ 73,980	86,036	102,847	117,150	132,740
No. of Stores		100	103	106	110	112
Sales per Store (\$000)	12.7%	\$ 740	835	970	1,064	1,185
Operating Profit* (\$000)	28.2%	\$ 5,648	7,850	10,338	11,728	15,177
Pre-Tax Profit (\$000)	32.1%	\$ 4,084	6,254	8,662	9,868	12,899
Net Profit (\$000)	30.1%	\$ 2,139	3,064	4,262	4,838	6,124

\*Operating earnings before deduction of depreciation, interest and income tax.

Margins, Returns on Capital, Etc.

Inc. in Selling Area	%	8.3	9.7	6.7	14.4	6.5
Inc. in Sales	%	7.5	16.2	19.5	13.9	13.3
Inc. in Pre-Tax Profit	%	14.2	53.1	38.5	13.9	30.7
Operating Profit Margin	%	7.6	9.1	10.1	10.0	11.4
Net Profit Margin	%	2.9	3.6	4.1	4.1	4.6
Apparent Tax Rate	%	47.6	51.0	50.8	51.0	52.5
Inventory Turnover	X	6.9	7.2	7.1	6.8	7.1
Return on Avg. Capital	%	8.7	11.4	14.3	13.9	15.6
Return on Avg. Equity	%	10.7	15.3	19.1	18.9	21.1
Capital Turnover	X	2.5	2.7	3.0	2.8	2.9

Capital Employed

	.....	\$ Millions.....		
Funded Debt	\$ 7.3	7.2	7.0	12.8
Preferred Stock	\$ 4.2	4.1	4.0	3.9
Common Equity	\$ 18.0	20.0	22.9	25.7
<b>TOTAL</b>	<b>\$ 29.5</b>	<b>31.3</b>	<b>33.9</b>	<b>42.4</b>
				46.3

COMMENTS

- (1) Zeller's record over the past five years has been excellent with sales rising 15.6% and net profit 30.1% annually. This performance reflects buoyant economic conditions and the maturing of some of the larger stores opened in recent years.
- (2) Profit margins have widened over the past five years. This improvement in profitability reflects:-
  - satisfactory competitive conditions
  - increased profitability of recently opened stores and the closing of unprofitable units
  - the further development of private brand merchandise bearing Zeller's own name
  - a higher proportion of credit sales on which the Company earns a merchandising profit plus a profit on financing of the article sold

(3) The return on total capital employed in 1967 was 15.6%. If leases are considered part of the capital structure, the return on capital was 12.7%.

(4) Zeller's employs a considerably amount of financial leverage. Considering leases as part of capitalization, common equity was only 34% of total capital employed in 1967, compared to 79% for Hudson's Bay Company, 45% for Simpson's and 71% for Woodward.

(5) Zeller's writes off all store opening expenses in the year in which they are incurred.

The superior performance of Zeller's is clearly illustrated by the following comparative statistics on:

- (a) Sales
- (b) Operating and Net Profits
- (c) Profit Margins
- (d) Returns on Equity

(a) SALES  
(\$ Million)

	<u>Hudson's Bay</u>	<u>Simpson's</u>	<u>Woodward</u>	<u>Zeller's</u>
1958	\$ 214.4	\$ 151.1	\$ 106.1	\$ 49.8
1959	223.7	159.9	117.4	53.3
1960	246.5	163.7	122.5	57.0
1961	294.4	169.4	128.6	62.9
1962	308.8	175.3	137.0	68.8
1963	325.8	193.0	146.8	74.0
1964	347.4	212.0	163.5	86.0
1965	370.6	231.7	181.2	102.8
1966	405.2	248.0	205.0	117.2
1967	424.8	259.4	233.7	132.7

Average  
Annual  
Growth

1958-67	7.9%	6.3%	9.4%	11.2%
1963-67	7.0%	7.5%	12.6%	15.6%

The most successful sales record of the past decade belongs to Zeller's. Since 1957 Zeller's has added 49 stores, primarily in suburban shopping centres. The Company now has 55 of its 112 stores located in suburban centres.

(b)

OPERATING AND NET PROFITS

While Zeller's has experienced an above average sales growth over the past decade, the Company has been able to record an even higher growth rate in operating and net profit. To show this clearly we have restated below annual sales growth figures together with growth of operating and net profit for the 1958-67 period.

		<u>Hudson's Bay</u>	<u>Simpson's</u>	<u>Woodward</u>	<u>Zeller's</u>
Sales	%	7.9	6.3	9.4	11.2
Operating Profit	%	8.1	10.1	6.5	15.1
Net Profit	%	7.4	10.0	5.4	13.1

It is apparent from the above percentage increases that Zeller's has been able to expand earnings more than the other three companies. Excluding dividends from Simpsons-Sears Limited, Simpson's net profit has grown over the past decade at a 6.3% average rate. Net profit generated by each \$1 increase in sales over the 1958-67 period is as follows:

		<u>Hudson's Bay</u>	<u>Simpson's</u>	<u>Woodward</u>	<u>Zeller's</u>
Inc. in Sales (\$000)	\$	210,347	108,320	127,557	82,910
Inc. in Net Profit (\$000)	\$	6,724	3,416*	2,273	4,185
Earns. Per \$1 Sales	¢	3.20	3.15	1.78	5.04

\* Excludes dividends from Simpsons-Sears Limited

(c)

PROFIT MARGINS

Profit margins shown in the following table have been in a generally rising trend. Zeller's has the highest margins while Simpson's has been able to show the greatest degree of improvement over the period, partly due to the success of the Simpsons-Sears operation. Woodward's margins have been erratic indicating that the company's progress has been impeded by price competition and the costs of opening new stores.

	<u>Hudson's Bay</u>	<u>Simpson's</u>	<u>Woodward</u>	<u>Zeller's</u>
1958	7.9%	7.7%	8.5%	8.6%
1959	7.9	7.2	7.6	8.9
1960	7.8	7.2	7.0	8.6
1961	7.8	7.8	6.5	7.3
1962	8.1	7.1	6.9	7.2
1963	8.4	8.5	7.1	7.6
1964	8.1	9.1	6.6	9.1
1965	8.2	9.8	6.9	10.1
1966	8.2	10.0	7.0	10.0
1967	8.1	10.6	6.8	11.4

(d)

RETURN ON EQUITY

In terms of return on equity, Zeller's has been the outstanding performer, followed by Woodward, Hudson's Bay and Simpson's.

	<u>Hudson's Bay</u>	<u>Simpson's</u>	<u>Woodward</u>	<u>Zeller's</u>
1958	8.7%	7.2%	11.8%	12.7%
1959	8.0	6.6	9.5	12.1
1960	7.5	6.3	8.3	12.3
1961	7.8	7.2	7.7	10.3
1962	8.4	6.7	8.8	10.1
1963	8.5	7.4	9.1	10.7
1964	8.5	7.1	8.9	14.5
1965	8.9	7.3	9.4	17.6
1966	9.1	8.5	9.7	18.2
1967	9.1	8.7	10.1	19.8

If we deduct Simpson's investment in Simpsons-Sears Limited (\$27.5 million) from its total equity of approximately \$118.2 million, a book value of \$90.7 million is placed on Simpson's merchandising operation. In 1967, this merchandising operation generated after-tax earnings of \$8.0 million, a return of 8.8%. On the other hand, Simpson's equity in the net assets of Simpsons-Sears Limited amounted to \$54.8 million at January 3, 1968. In 1967 this venture provided Simpson's with earnings of approximately \$5.6 million, which is a 10.2% return on this investment.

By contrast, the merchandising operation of the Hudson's Bay Company generated after-tax earnings in 1967 of \$12.1 million, about an 8.4% return on equity, while the company's 21.9% equity interest in Hudson's Bay Oil and Gas returned 20% on the book value of this investment.

FUTURE PROSPECTS

The foregoing record of sales, earnings and various ratios clearly brings to light the superior performance of Zeller's. The Company should continue to report good growth through 1972. The Company's projected capital program for the next five years provides for annual expenditures for fixtures and equipment of approximately \$3.0-\$3.5 million, all to be financed internally. Zeller's states that there are more than 130 suitable communities in Canada that are not at the present time served by a large Zeller's department store.

Earnings Estimates - 1968

In 1968 over 500,000 square feet of selling area will be added, a 25% addition to the present area. The 1968 program includes eight new stores ranging in gross floor area from 56,000 to 86,000 square feet and extensions to two or possibly three existing units. In addition, the downtown store in Fredericton, New Brunswick, which was destroyed by fire in late January 1968,

will be rebuilt. Allowing for the addition of new stores we estimate sales in 1968 will rise about 15% to \$150-\$155 million from \$133 million in 1967.

In view of the higher operating costs facing most companies, the higher interest rates on short-term borrowings to finance receivables and greater store opening expenses because of an expansion program that is more than double the size of 1967's program, we anticipate some contraction in net profit margins from the peak levels of 4.6% experienced in 1967 to about 4.5%. We therefore look for earnings per share to increase by about 14% to \$0.55 compared with \$0.48 in 1967.

#### Earnings Longer Term

Since it takes some time for any retail store to reach volume objectives, Zeller's can expect further sales gains from stores opened in recent years. Moreover, we expect the Company to continue to expand selling area at a 10% to 15% annual rate over the next few years. Therefore, sales growth at the rate of at least 10% to 12% annually appears to be attainable assuming disposable income continues to increase.

Longer-term we expect margins to be at least maintained. Overhead costs will be spread over a larger sales base, high-margin, private brand merchandise will become more important and financing profits on credit sales should increase. On the other hand wage costs are likely to rise, and interest charges will increase as funds are needed to support the growing volume of instalment receivables. On balance, we estimate a sales potential of \$250 million by 1972 (fiscal year ending January 31, 1973). Assuming a net profit margin of 4.5%, the earnings power level for 1972 would be \$0.90 per share.

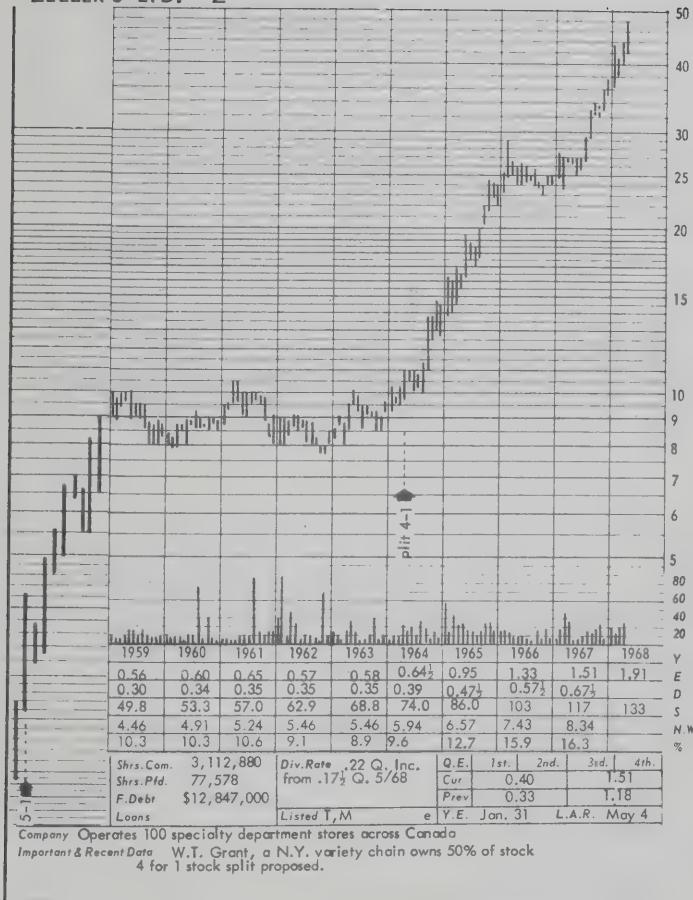
#### PER SHARE DATA\*

	Average Growth 1963-67	....Years Ending Following Jan. 31.....				
		1963	1964	1965	1966	1967
Earnings	30.5%	\$ 0.16	0.24	0.33	0.38	0.48
Dividends	42.0%	\$ 0.09	0.10	0.12 $\frac{1}{2}$	0.15	0.17 $\frac{1}{2}$
Pay-out		% 56	42	39	39	37
Cash Flow	23.7%	\$ 0.26	0.35	0.45	0.50	0.61
Equity	12.8%	\$ 1.49	1.65	1.87	2.09	2.41
Return on Equity	% 10.7	14.5	17.6	18.2	19.8	
Price Range	\$ 5-4	4-3	6-4	7-6	9-6	
Average P/E Ratio	X 28.1	14.6	16.7	17.1	15.6	
Average Yield	% 2.0	2.9	2.6	2.3	2.4	

\* Per share figures are adjusted for 4-for-1 stock split on May 9, 1968.

STOCK MARKET COMMENTS

ZELLER'S LTD. - Z



In the five year period 1959-63, Zeller's traded within a range of \$8 to \$10 (adjusted for 4-for-1 stock split in May 1964).

Following the stock split in 1964, the stock broke out of this range, and as the exceptionally strong earnings gains became apparent, Zeller's moved well ahead. From \$10 in early 1964, the stock reached an all-time high of \$48 in April 1968. The shares were split 4-for-1 on May 9, 1968.

At the current market of approximately \$14 per share, the stock sells at 25.5 times estimated 1968 earnings of \$0.55 per share. We are aware of the fact that the price/earnings valuation placed on Zeller's is approximately 12% higher than that of the merchandising group of the TSE Industrial Index. However, Zeller's recent sales and earnings record exemplify very well the vigor of this chain's expansion program, particularly in the direction of the large modern department store; hence its superior investment performance and relatively high price/earnings multiple.

BALANCE SHEET DATA  
(\$ Millions)

Capitalization

Because some companies prefer to own their stores, while others prefer to rent; capitalized leases should be included as debt in order to make valid comparisons. The majority of Zeller's 112 stores are leased and minimum annual rentals under long-term leases amounted to \$4.3 million as at January 31, 1968. The profile of Zeller's capitalization is shown below.

January 31, 1968

	<u>\$ Mln.</u>	<u>%</u>
Leases Capitalized	\$ 43.0	48.2%
Long Term Debt	12.4	13.9
Preferred Stock	3.8	4.3
Common Equity	<u>30.1</u>	<u>33.6</u>
	<u>\$ 89.3</u>	<u>100.0%</u>

At the current price of \$14, the 12,490,000 common shares (adjusted for 4-for-1 stock split in May, 1968) have a market value of \$174.9 million.

Working Capital

Current Assets:	Cash	\$ 2.3
	Receivables	24.6
	Inventories	18.8
	Miscellaneous	<u>0.3</u>
		\$ 46.0

Current Liabilities:	Notes Payable	\$ 1.0
	Accounts Payable	4.2
	Other	<u>7.2</u>
		<u>12.4</u>

Working Capital \$ 33.6

Current Ratio 3.7 to 1

Cash as % of Current Liabilities 18.5%

SOURCE AND USE OF FUNDS  
(\$000's)

----- Years Ending Following Jan. 31 -----					
<u>Source</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Retained Earnings	\$ 790	\$1,571	\$2,450	\$2,710	\$3,684
Depreciation	1,148	1,187	1,278	1,383	1,482
Debt issued	-	-	-	5,828	-
Sale of Land & Bldgs.	300	1,140	-	-	158
Shares issued	93	138	272	218	541
Miscellaneous	-	38	14	27	5
 Total	 \$2,331	 \$4,074	 \$4,014	 \$10,166	 \$5,870
 <u>Use</u>					
Additions to Capital Assets	\$1,325	\$1,442	\$1,349	\$2,198	\$1,609
Debt Repayments	131	122	211	102	394
Miscellaneous	175	-	-	230	73
 Total	 \$1,631	 \$1,564	 \$1,560	 \$2,530	 \$2,076
Increase in Working Capital	\$ 700	\$2,510	\$2,454	\$7,636	\$3,794
 Working Capital at Year End	 \$17,234	 \$19,744	 \$22,198	 \$29,834	 \$33,628

STORE EXPANSION

Selling Area in Square Feet

<u>No. of Stores</u>	<u>Downtown Locations</u>	<u>Shopping Centre Locations</u>	<u>Total Company</u>	<u>Average Size of New Stores Opened</u>	<u>Capital Expenditures (\$000)</u>
1958	67	49	18	683,400	13,000
1959	69	49	20	798,000	13,100
1960	80	51	29	966,800	14,700
1961	94	57	37	1,231,900	16,200
1962	100	60	40	1,372,500	20,700
1963	100	57	43	1,486,100	39,300
1964	103	57	46	1,630,900	31,400
1965	106	58	48	1,741,700	37,100
1966	110	58	52	1,992,600	54,900
1967	112	57	55	2,122,200	38,000



